Annual Investment Strategy (2023)

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Introduction to ACPL

Abbasi and Company (Pvt.) Limited (ACPL) is amongst the notable financial brokerage firms in Pakistan. The company is a TREC Holder of Pakistan Stock Exchange Limited (PSX) and is a universal member of Pakistan Mercantile Exchange Limited (PMEX). Pakistan Credit Rating Agency (PACRA) has assigned the initial broker rating of “BMR 2” and “BFR 2” with a “Stable” outlook to Abbasi and Company (Pvt.) Limited.

Although Abbasi and Company (Pvt.) Limited has been providing brokerage services to its clients since 1999 yet, it had been registered as a formal Research Entity in April 2019. Within a short period of around 4 years, we have covered 46 scrips from 14 sectors which constitute around 60% of the market capitalization of the KSE 100 index.

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EXECUTIVE SUMMARY

The performance of the stock market would be dependent on political stability and further ease in international commodity prices in our view. General elections are to be held this year, and a strong government is very important for the stability of the economy which shall also help to improve our relations with friendly countries.

After incorporating the Post-Disaster Needs Assessment of the floods and latest developments, the FY23 projections for growth of around 2 percent and a current account deficit of around 3 percent of GDP shared in the last monetary policy statement are re-affirmed. However, higher food prices and core inflation are now expected to push average FY23 inflation up to 23-24 percent. Thus, we expect a further increase of around 200 bps in the policy rate during the current year.

As the market has continued to fall for the past 18 months due to economic and political crises, the stock prices of the majority of companies have come down to extremely attractive levels. That's the reason why around 6 corporates have recently announced buybacks and the trend is expected to continue in 2023 as well. The buybacks would not only support the prices of stocks but also motivate investors to take the advantage of investing at cheap valuations.

Therefore, we suggest our investors to consider the dips as buying opportunity and accumulate the scrips from the banking sector as the elevated interest rates will improve net interest earnings. Furthermore, having noncyclical and high dividend-yielding stocks in the portfolio would also provide a constant stream of income during depressed times.

We have an Overweight stance on Commercial Banks, Oil Gas Exploration, Fertilizer, and Technology sectors. Whereas, we have a Market Weight Stance on Cement, Engineering, and Pharmaceutical sectors.

Our top picks include MCB, BAHL, UBL, MEBL, FABL, FFC, EFERT, FATIMA, MARI, SYS, DCR.

SCRIP RECOMMENDATIONS

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Commercial Banks

	Buying Area	Target Price		Upside (%)	LDCP	BV (T)	P/B (T)	Dividend		D/Y - F (%)	EPS		EPS		P/E (F)	Shares ('mn)	Free Float ('mn)
MCB	113.0	Dec 23	150	32.7 ▲	116.16	142.6	0.8	CY23E	23.00	19.8	9MCY22	16.75	CY22E	19.99	5.8	1,185	415
BAHL	54.0	Dec 23	70	29.6 ▲	55.28	82.5	0.7	CY23E	9.00	16.3	9MCY22	13.47	CY22E	17.65	3.1	1,111	722
UBL	101.0	Dec 23	135	33.7 ▲	100.75	164.9	0.6	CY23E	18.00	17.9	9MCY22	15.33	CY22E	20.30	5.0	1,224	490
MEBL	98.0	Dec 23	140	42.9 ▲	99.54	58.0	1.7	CY23E	8.50	8.5	9MCY22	15.98	CY22E	20.17	4.9	1,790	447
FABL	25.0	Dec 23	32	28.0 ▲	25.50	47.8	0.5	CY23E	4.75	18.6	9MCY22	5.05	CY22E	8.05	3.2	1,518	379

Fertilizer

	Buying Area	Target Price		Upside (%)	LDCP	BV (T)	P/B (T)	Dividend		D/Y - F (%)	EPS		EPS		P/E (F)	Shares ('mn)	Free Float ('mn)
FFC	98.5	Dec 23	130	32.0 ▲	98.71	80.7	1.2	CY23E	17.00	17.2	9MCY22	11.67	CY22E	15.62	6.3	1,272	700
EFERT	78.0	Dec 23	100	28.2 ▲	76.89	30.9	2.5	CY23E	15.00	19.5	9MCY22	7.19	CY22E	11.28	6.8	1,335	601
FATIMA	33.0	Dec 23	42	27.3 ▲	33.60	47.0	0.7	CY23E	4.50	13.4	9MCY22	4.71	CY22E	6.63	5.1	2,100	315

Oil & Gas Exploration Companies

	Buying Area	Target Price		Upside (%)	LDCP	BV (T)	P/B (T)	Dividend		D/Y - F (%)	EPS		EPS		P/E (F)	Shares ('mn)	Free Float ('mn)
MARI	1550.0	Dec 23	2,065	33.2 ▲	1546.96	1016.6	1.5	FY23E	160.00	10.3	1QFY23	95.31	FY23E	319.30	4.8	133	27

Technology & Communication

	Buying Area	Target Price		Upside (%)	LDCP	BV (T)	P/B (T)	Dividend		D/Y - F (%)	EPS		EPS		P/E (F)	Shares ('mn)	Free Float ('mn)
SYS	451.0	Dec 23	635	40.8 ▲	483.93	45.4	10.7	CY23E	8.25	1.7	9MCY22	17.30	CY22E	23.10	20.9	290	167

Real Estate Investment Trust

	Buying Area	Target Price		Upside (%)	LDCP	BV (T)	P/B (T)	Dividend		D/Y - F (%)	EPS		EPS		P/E (F)	Shares ('mn)	Free Float ('mn)
DCR	13.4	Dec 23	15.9	18.3 ▲	13.64	26.6	0.5	FY23E	1.75	12.8	1QFY23	0.43	FY23E	1.73	7.9	2,224	556

PAKISTAN POLITICS

Political Stability to Hold Ground Post General Elections: The ouster of Former Prime Minister Imran Khan as the outcome of the no-confidence motion in April 2022 kicked off a wave of political instability which soon took hold of the whole country. The fall of PTI led government in Punjab and the subsequent sweep in by-elections in addition to continuous demonstrations against the incumbent government in Islamabad kept the situation fluid. Furthermore, the killing of senior journalist Arshad Sharif in Kenya and an assassination attempt on Imran Khan during Haqiqi Azadi March added fuel to the fire after which the smear campaign against the top command of the Pakistani Army and ISI started to gain momentum in which the largest political party in Pakistan and its leader Imran Khan started putting allegations on the institution for both incidents. However, considering the change of army command, back door negotiations with the help of President Arif Alvi, recent soft statements about the army and the US by Imran Khan, and general elections a few months ahead, it is expected that the free and fair elections - regardless of their results - with a smooth transition of power are going to bring much-needed political stability to the country.

Foreign Relations of Pakistan: The ice between Pak and US stringent relations post-Former PM Imran Khan's visit to Russia started to melt down when President Biden met PM Shahbaz on the sidelines of UN General Assembly session in New York in September 2022. Both countries hold a relationship of seven decades with a history of highs and lows during different eras. However, the relations hit a new low when the former premier alleged a high-ranking US official of hatching a conspiracy to topple his government through a vote of no-confidence. Nevertheless, the US helping Pakistan to negotiate a deal with IMF on a bailout program in addition to the removal from FATF's grey list marks another step towards the improvement of bilateral relations between both countries. Furthermore, the introduction of health, industrial digital, and green corridors under the next phase of CPEC in addition to financial support indicates significant progress in economic and bilateral relations between China and Pakistan. Moreover, the holding of the 48th session of OIC Council of Foreign Ministers in Islamabad was a hallmark of Pakistan's foreign policy and an enhancement of Pakistan's strong standing in the Islamic world. In addition, a proposed multi-billion dollar deal for a refinery project in Gwadar will open up new investment opportunities for Saudi and gulf investors in the country. However, the relations with Taliban-ruled Afghanistan are facing challenges, after deadly attacks by Kabul's forces in disputed border areas.

PAKISTAN ECONOMY

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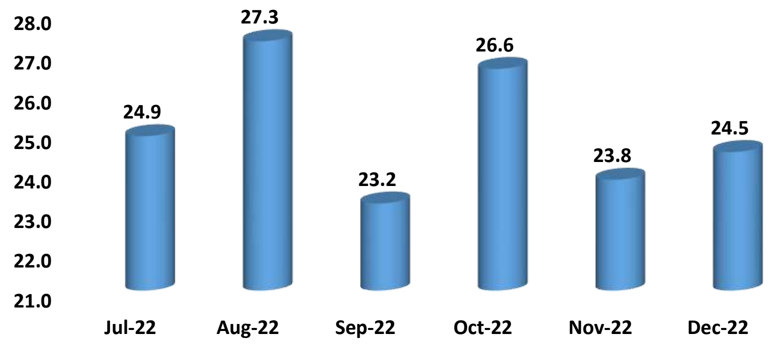
Inflation to push upwards: During the 2HCY22, widespread floods in the country caused supply disruptions and pushed the YoY price of essential food items high with the average inflation rate increasing to 25.1% YoY in CY22 as compared to 9.2% YoY during CY21. The inflation rate for Dec-22 stood at 24.5% compared to 23.8% during the last month. In addition to supply shocks for food items in wake of devastating floods, the surge in inflation rate was caused by an increase in higher energy prices owing to higher global commodity prices coupled with the devaluation of the local currency. The catastrophic floods pushed the country to the brink. More than 80% of crops were damaged with fresh crops being delayed, and supply chains being disrupted. In addition, the tough measures taken by the government such as higher energy tariffs, higher petroleum prices, and devaluing of the rupee, in order to revive the IMF program, pushed the monthly inflation to a 47-year high at 27.3% in Aug-22. Further, US restrictions on Russian over the Ukraine invasion, OPEC supply cuts, and Europe's gas crises caused global energy prices to skyrocket.

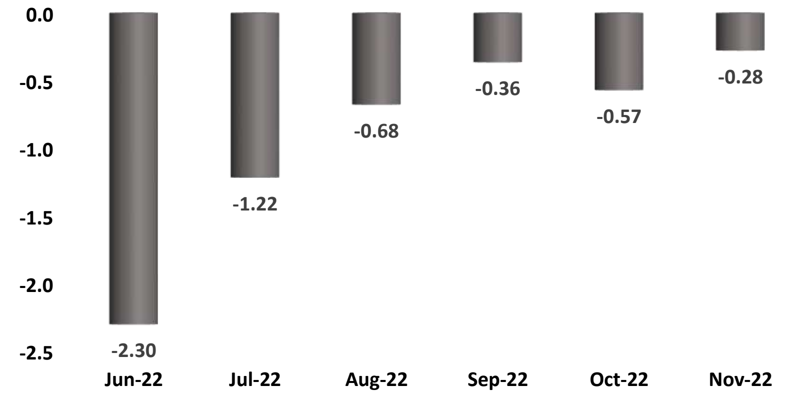
The continuous depreciation of PKR owing to rising political uncertainty, falling foreign reserves, and higher levies on petroleum products magnified the impact of high commodity prices. Going forward, we are not expecting inflation to cool down in the coming year as the expected mini-budget, to meet the budgetary revenue shortfall, is going to offset the impact of a fall in global commodity prices; hence, incorporating post-disaster assessment of floods, we expect core inflation to rise - pushing average FY23 inflation to be with around 23-24%.

CAD to remain below $10 billion: As a consumption-based economy, Pakistan relies heavily on the import of commodities such as steel, oil, and chemicals for its economic growth. However, the country has managed to shrink the current account deficit during the first five months of the current fiscal year, $0.276bn against $1.92bn, an 86% YoY decrease over the last year.

National Consumer Price Index (%)



Current Account Deficit (USD'bn)

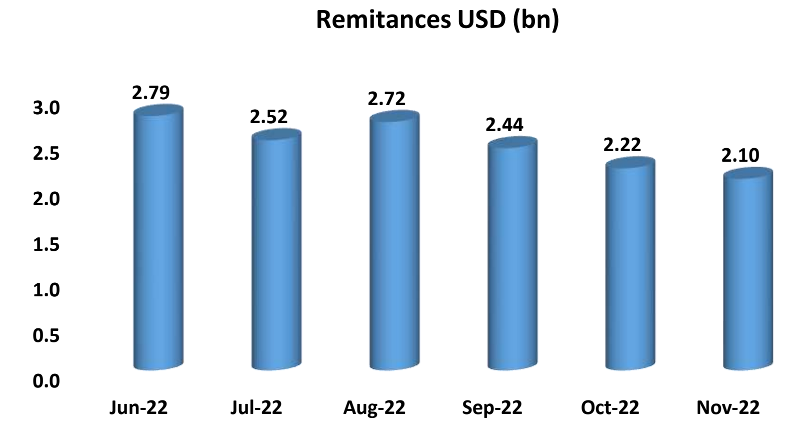


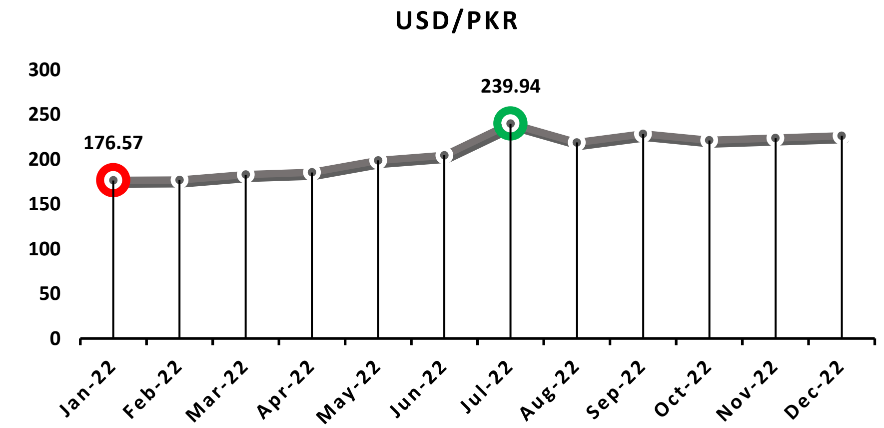
PAKISTAN ECONOMY

With the new restrictions on the use of credit and debit cards in addition to already imposed measures to curb imports, SBP expects CAD to remain below $10 billion during the current fiscal year. This projected deficit of 3% of GDP is much less than the forecasted 4.3% deficit by the World Bank.

Further, owing to the devastating flood across South Punjab and Sindh which highly impacted the cotton crop, we expect the imports of cotton and food items to rise in addition to lower exports for the textile sector. However, lower domestic demand and a fall in global commodity prices are going to offset this gap. Moreover, the availability of better investment opportunities around the world with rising interest rates has increased the withdrawals from Naya Pakistan Certificates (NPC) over the last few months. This is a major concern as RDAs hold the major chunk of foreign investment in domestic bonds and constitute about 37 percent of the $7.86 billion foreign reserves currently held by the county. Going forward, with the normalization of imports in order to sustain economic growth, we expect the CAD to widen; however, favorable movements in commodity prices, an increase in remittances, and a robust rise in exports are the key upsides to maintaining CAD.

PKR to remain within the range of Rs240-250 by the end of 2023: Owing to a rise in imports due to higher commodity prices in addition to debt payments for maturing bonds, the country's foreign exchange reserves fell by 68% from $18 billion to $5.82 billion during CY22. Furthermore, PKR depreciated by 28.24% from Rs176.57 to Rs226.43 during the same period last year. Going forward, we expect the depreciation of the rupee to be restricted within the range of Rs240-250 by the end of this year assuming the import bill will remain under control amid tight monetary and fiscal policies and a decline in global commodities prices. Furthermore, disbursements from IMF under the bailout program and financing from other institutional lenders will provide much-needed support to PKR.



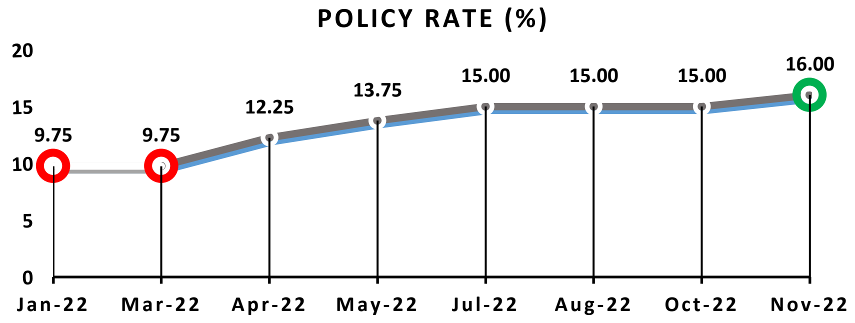


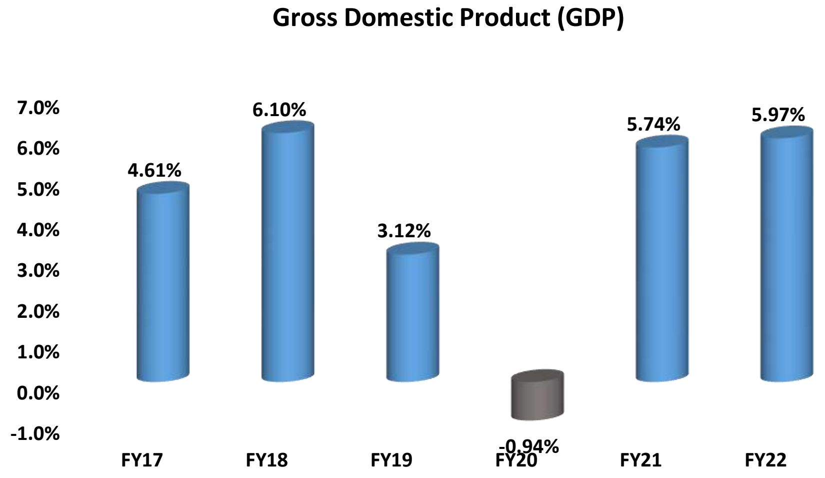
Source: PBS, SBP

PAKISTAN ECONOMY

Monetary Policy: Further Increase of Around 200 bps is on the Cards: In order to tame the inflationary pressures and ensure that the CAD remains under control, the SBP decided to increase the policy rate by 100 bps to 16% in its recent MPC meeting, accumulating to an increase of 625 bps in a period of one year. Considering the inflation forecast of around 24% in FY23, the MPC feels that inflation is likely to be more persistent than previously anticipated. Going forward, we expect a further increase of around 200 bps in policy rate during the current year to ensure that elevated inflation does not become entrenched and that risks to financial stability are contained.

Flood impact - GDP Growth to Remain Around 2%: For FY23, the government allocated PSDP of Rs550 billion in its budget which is a nearly 39% decline over the previous year's budgeted allocation of Rs900 billion. The budget was meant to provide maximum relief to the poor with the imposition of special taxes on the rich and corporates. The government intended to raise the tax-to-GDP ratio from 8.6 percent in FY22 to 9.2 percent in the current fiscal year. Moreover, non-tax revenue was expected to grow by 63% amid the projected Rs700 billion revenue collection from the petroleum levy. The aim was to achieve at least 5 percent growth without a problem with the balance of payments. However, with the imposition of super tax coupled with higher fuel and energy prices, the cost of production went up, and resultantly, the profitability of the firms declined with LSM growth for the 1QFY23 declined by 0.4% YoY as compared to the same period last year. Furthermore, to meet the budgetary shortfall of revenue collection, the government set a tax collection target of Rs965 billion for Dec-22 which was enormously 61% higher than the last month's Rs537 billion. In addition, amid increasing fiscal slippages and external financing gap, IMF is asking to mobilize Rs800 billion, equivalent to 1% of GDP, to meet expenditure hikes owing to the ballooning up of debt servicing to an unprecedented level. Moreover, in wake of floods, the construction and auto sectors are facing





Source: PBS, SBP

difficult times due to lower demand caused by higher interest rates and the devaluation of PKR. Going forward, with US and EU being the main export destinations of Pakistan, a slowdown in their projected growth rates is going to hit the country's exports with textile exports constituting 50% of the country's export basket. Lastly, considering tight monetary and fiscal measures in addition to incorporating the infrastructure and agricultural losses caused by the unprecedented floods, we expect the GDP growth to decline and be around 2% in the current fiscal year compared to 5.96% during the last year.

Resumption of IMF Program is Contingent on Strict Fiscal Measures: In the final week of October, Pakistan's financial management and IMF representatives were scheduled to meet to start discussions about the ninth review of the $7 billion loan program. However, the highly anticipated conference was repeatedly postponed, the government has acknowledged, due to "differences with the International Monetary Fund (IMF) on various areas.". It is becoming clear that Ishaq Dar, the finance minister, will have a difficult time persuading the IMF given the nation's declining financial situation. Due to a decline in imports and a decline in gasoline use, which will both have an adverse effect on tax collection, Pakistan may need to modify its plans after lowering income projections.

In 2019, Pakistan signed up for a $6 billion IMF program, which was earlier boosted to $7 billion. The 9th review of the program is still ongoing, and remote negotiations between IMF representatives and the government are taking place to release $1.18 billion. As the country's FX reserves are at an extremely low level, securing the IMF tranche is essential for the release of funds from other bilateral and multilateral partners. **The resumption of the IMF program would eliminate the uncertainties causing jitters in PSX, money market, and exchange rate**.

Source: PBS, SBP

PAKISTAN STOCK MARKET

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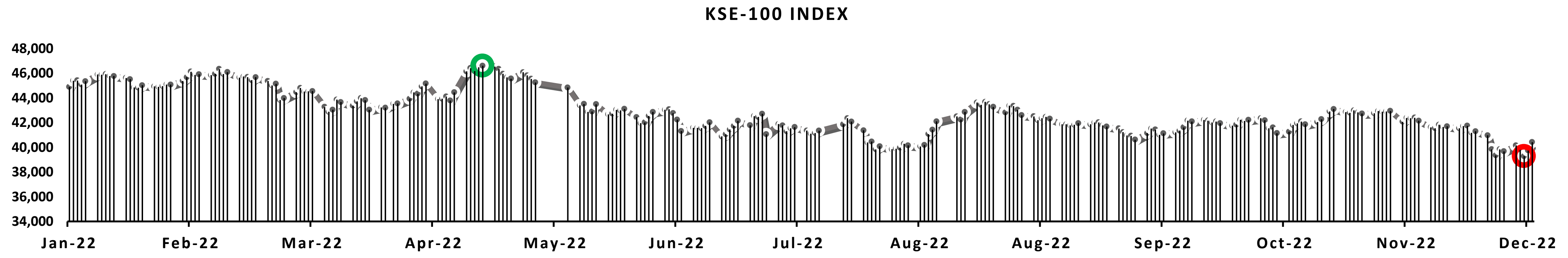
KSE-100 Index	▼ -9.36%	KSE-All Index	▼ -10.39%	KSE-30 Index	▼ -15.23%	KMI-30 Index	▼ -4.76%	KMI-All Index	▼ -9.26%
40,420	-4,176	27,533	-3,194	14,836	-2,666	68,277	-3,410	19,986	-2,041

The stock market remained quite volatile throughout CY22 and concluded the year with losses. The benchmark KSE 100 index made an intra-year high and low at 46,601 (1,715 points) and 39,279 (-5,607 points) respectively while closed at 40,420 by losing 4,176 points. The index started the year with a slight return of 1.7% in Jan-22 primarily due to the uncertainty over the approval of the mini-budget and SBP amendment bill. However, amid uncertainty over rising international crude oil prices owing to the Russia-Ukraine conflict, the index closed the month of Feb-22 with a negative return of 2%. Furthermore, the uncertainty on the political front related to the vote of no confidence also kept the investors' confidence in check. After posting a negative return of 2% in Feb-22, the index closed the month of Mar-22 with a return of 1.1% amid a declining Pak Rupee which depreciated by around 3.4% during the period to close at Rs.183.48. Initially, the market plunged by 3.8% to the low of 42,789 in the first half of the month, mainly due to the uncertainty on the political front related to the vote of no confidence. However, it gained momentum in the second half and surged by around 5% to close at 44,929, as it was almost certain that the government of PTI would be gone as a result of the success of the "No-Confidence Motion". Moving on, the index closed the month of Apr-22 with a slight return of 0.7%. Initially, the market surged and made a high of 46,970 in the first half of the month, as the investors celebrated the arrival of the new pro-west government. However, it reversed most of its intra-month gains amid a widening twin deficit on account of fuel subsidies and rising international commodity



PAKISTAN STOCK MARKET

prices. Furthermore, the MPC in its emergency meeting decided to raise the interest rate by 250 bps to 12.25% during the month which also dampened the investors' sentiments. Afterward, The index remained under immense selling pressure for the majority part of the month as the political uncertainty and a delay in the resumption of IMF program dampened the investors' sentiments. However, later on, the index reversed around half of its intra-month losses and concluded the month by posting a negative return of 4.8% in May-22 as the government showed its willingness to take unpopular measures to control the twin deficit and resume the IMF program. Furthermore, the MPC in its meeting decided to raise the interest rate by 150 bps to 13.75% during the month. The index continued its downward trend for the month of June and July amid political turmoil, imposition of super taxes, and immense depreciation in PKR. However, market rebounded and remained bullish during the first half of Aug-22 due to a V-shape recovery of PKR amid anticipation of the revival of the IMF program. Though profit-taking was witnessed in the latter half and the index concluded the month at 42,351 by posting a return of 5.5% as Pakistan was hit by heavy rains and floods for which the nation incurred losses of around $46 billion. The selling pressure continued in September; however, the pushback was witnessed in the last week while the index concluded the month at 41,128 by posting losses of 2.9% amid the resignation of finance minister Miftah Ismail and the return of Ishaq Dar as the new Finance Minister of Pakistan. After Mr. Dar's comeback, PKR showed appreciation against the USD, markets rebounded, and fuel prices were reduced by Rs. 12.5. Furthermore, ADB and other friendly countries pledged support to Pakistan for flood relief.

The stock market started the month of Oct-22 on a positive note over the optimism of the removal of Pakistan from the FATF grey list. However, later on, it lost the impetus and reversed almost all of its gains while concluding the month at 41,265, posting a return of a mere 0.3% amid the killing of a famous journalist Arshad Sharif and the announcement of the long march by PTI. Also during the month, Prime Minister Shehbaz Sharif announced a special package of Rs1,800 billion to promote the agriculture sector. The stock market showed a positive trend for the majority part of the month of Nov-22. However, an unexpected increase in the policy rate of 100bps to 16% by MPC in its latest meeting took the market by surprise and drained around 1,000 points in a single day. However,

Top Performers

Sector	Weight (%)	Return (%)
REAL ESTATE INVESTMENT TRUST	0.48	25.58
FERTILIZER	7.94	11.36
TRANSPORT	0.93	9.62
SUGAR & ALLIED INDUSTRIES	1.09	8.53
SYNTHETIC & RAYON	1.20	5.6

Top Decliners

Sector	Weight (%)	Return (%)
ENGINEERING	1.22	(38.7)
AUTOMOBILE PARTS & ACCESSORIES	0.59	(35.8)
WOOLLEN	0.00	(34.0)
PHARMACEUTICALS	2.90	(30.0)
CEMENT	5.70	(29.2)

Top Heavy Weight Sectors

Sector	Weight (%)	Return (%)
COMMERCIAL BANKS	16.9	(15.4)
OIL & GAS EXPLORATION COMPANIES	12.4	(2.7)
FOOD & PERSONAL CARE PRODUCTS	9.8	(1.2)
FERTILIZER	7.9	11.4
CHEMICAL	5.8	(3.9)

PAKISTAN STOCK MARKET

despite extreme political uncertainty after Imran Khan was shoot in his long march and the country facing a financial crunch, the market managed to conclude the month at 42,349, posting a return of 2.6%. **Going forward, the performance of the stock market would be dependent on political stability and further ease in international commodity prices in our view.** General elections are to be held this year, and a strong government is very important for the stability of the economy which will also help to improve our relations with friendly countries.

As the market has continued to fall for the past 18 months due to economic and political crises, the stock prices of the majority of companies have come down to extremely attractive levels. That's why around 6 corporates have recently announced buybacks and the trend is expected to continue in 2023 as well. **The buybacks would not only support the prices of stocks but also motivate investors to take the advantage of investing at cheap valuations.**

As far as the sectoral performance is concerned, the Real Estate Investment Trust sector was the top-performing sector with an annual return of 25.6% during the year. On the other hand, Engineering remained the worst-performing sector posting a decline of 38.7% during CY22. Moreover, the top three heavyweight sectors, Commercial Banks, Oil & Gas Exploration, and Food & personal care products which constitute around 48.4% of the KSE-all index posted a decline of 15.4%, 2.7%, and 1.2% respectively. It is pertinent to mention here that the Banking sector hasn't performed well during the year despite higher interest rates because of heavy super taxation imposed by the government.

Therefore, we suggest our investors consider the dips as buying opportunity and accumulate the scrips from the banking sector as the elevated interest rates will improve net interest earnings. Furthermore, having noncyclical and high dividend-yielding stocks in the portfolio would also provide a constant stream of income during depressed times. We have an Overweight stance on Commercial Banks, Oil Gas Exploration, Fertilizer, and Technology sectors. Whereas, we have a Market Weight Stance on Cement, Engineering, and Pharmaceutical sectors.

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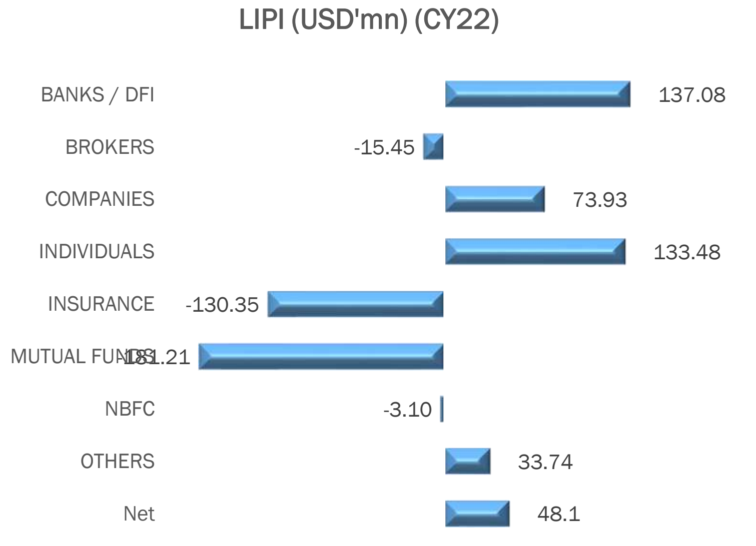

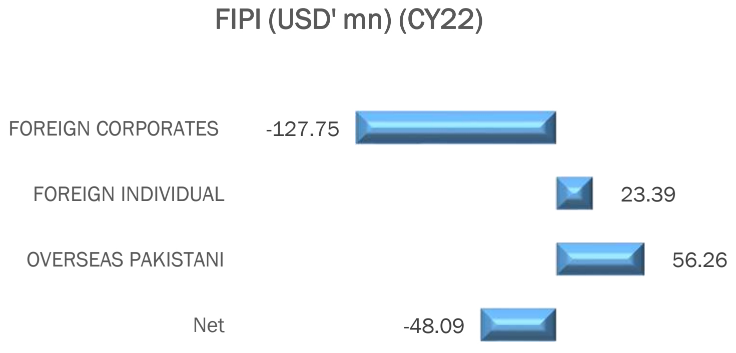

FIPI / LIPI SECTOR WISE BREAK UP

(USD' mn) (CY22)

		Cement	Banks	Fertilizer	Food	E&P	OMC	Power	Tech	Textile	Others	Gross
LIPI Portfolio	Banks / DFI	20.84	79.89	-7.66	-1.12	6.03	-0.58	-1.35	6.98	7.60	13.38	124.03
	Broker Proprietary Trading	-0.31	-0.94	0.36	1.34	1.41	1.94	-1.56	-16.39	-0.72	-0.21	-15.09
	Companies	12.94	46.44	11.29	0.21	7.99	0.55	0.03	-20.27	4.55	13.60	77.33
	Individuals	12.28	30.87	9.12	7.94	4.07	14.72	21.38	-23.81	0.47	56.32	133.34
	Insurance Companies	-10.00	-6.61	-9.51	-7.19	-26.57	-10.32	-9.33	-9.66	-3.98	-35.57	-128.73
	Mutual Funds	-25.63	-14.29	-5.71	-2.50	-5.54	-6.37	-13.83	-13.28	-13.97	-64.49	-165.61
	NBFC	-0.08	-1.02	-0.03	-0.08	-0.16	-0.04	-0.10	-0.03	-0.05	-1.69	-3.26
	Other Organization	5.22	-7.78	14.92	1.62	2.59	-0.12	-1.57	-0.39	-1.22	12.85	26.13
	LIPI Total	**15.26**	**126.56**	**12.78**	**0.22**	**-10.17**	**-0.20**	**-6.33**	**-76.84**	**-7.32**	**-5.81**	**48.1**

(USD' mn)

		Cement	Banks	Fertilizer	Food	E&P	OMC	Power	Tech	Textile	Others	Gross
FIPI Portfolio	Foreign Corporates	-16.25	-152.62	-17.78	0.84	5.42	-2.22	1.43	62.65	4.67	-13.88	-127.75
	Foreign Individual	-0.01	3.53	0.22	-0.29	0.05	-0.04	0.03	19.96	0.07	-0.12	23.39
	Overseas Pakistani	1.00	22.54	4.78	-0.76	4.70	2.46	4.87	-5.77	2.58	19.85	56.25
	FIPI Total	**-15.26**	**-126.56**	**-12.78**	**-0.22**	**10.17**	**0.20**	**6.33**	**76.84**	**7.32**	**5.85**	**-48.1**

SECTORS OUTLOOK

Commercial Banks

In order to counter the inflationary pressures and ensure that the CAD remains under control, the SBP decided to increase the policy rate by 100 bps to 16% in its recent MPC meeting, accumulating to an increase of 625 bps in a period of 1 year. Considering the inflation forecast of around 23-24% (SBP estimate) in FY23, the MPC feels that the inflationary pressures have proven to be stronger and more persistent than expected and the goal is to contain risks for financial stability, paving way for higher growth on a sustainable basis.

Going forward, owing to high inflation, we do not expect the interest rate to decrease in the near future. In such a scenario, commercial banks are one of the most lucrative investment avenues in our view right now. Our recommended scrips in the sector include:

BAHL, MEBL, UBL, MCB

Commercial Banks

BAHL
Dec-23 TP: 70
Upside: 27%
Div. Yield: 16%

MEBL
Dec-23 TP: 140
Upside: 40%
Div. Yield: 8%

UBL
Dec-23 TP: 135
Upside: 34%
Div. Yield: 18%

MCB
Dec-23 TP: 150
Upside: 29%
Div. Yield: 20%

FABL
Dec-23 TP: 32
Upside: 24%
Div. Yield: 18%

BAHL - Bank AL Habib Limited

ABBASI AND COMPANY (Pvt) Ltd.

We have a BUY stance on the scrip with a Justified PB based Dec-23 target price of Rs 70 which provides an upside potential of 27%. Furthermore, it also offers an attractive dividend yield of 16% which makes the total return of 43%.

Strong Growth in Deposits Likely to Continue: The deposit base of BAHL has grown by an impressive growth rate of 24.20% YoY to Rs1.58trn in 9MCY22 as compared to Rs1.27trn in 9MCY21. The robust growth in deposits has been made possible by the network of more than 900 branches which have grown at a 5-year CAGR of 9.58%. Going forward, we expect the deposit base to grow at a 5-year CAGR of 12% to Rs2.58trn by CY27 on account of strong brand equity, and higher interest rates.

Low Proportion of Government Deposits: BAHL has almost the lowest proportion of government deposits in its deposit base. By the end of CY21, the bank had only 3.25% of government deposits which makes it one of the least affected banks in case of the formation of treasury single account (TSA).

High Advances to Deposit Ratio: The ADR of BAHL stood at around 52% in 9MCY22 as compared to the industry average of 49.7% due to which it stands out amongst its peers. High ADR would enable the bank to expand its NIM by earning high yields on corporate loans.

Valuation: BAHL is currently trading at CY23E PE of 2.54x. Furthermore, the scrip is trading at a CY23E P/B of 0.53x which offers a discount of 23% relative to its historical 3-year average of 0.69x.

Key Risks: Low quality ADRs, higher than expected NPLs, implementation of IFRS 9

Symbol	BAHL
TP (Dec-23)	70.00
CY22 Closing Price	55.28
Upside (%)	27
Free Float ('mn)	722
Market Cap. (Rs.'mn)	62,239

BUY | HOLD | SELL

52-Week Range

55.28

52.50 — 78.49

Income Statement		CY21	CY22E	CY23E	CY24E	CY25E
Net Interest Income	Rs.'bn	55.61	72.07	85.89	95.38	105.18
Total Interest Expense	Rs.'bn	14.03	21.32	18.49	21.98	26.27
Operating Expenses	Rs.'bn	38.75	51.37	57.98	65.19	73.02
(Provisions) / Reversals	Rs.'bn	0.05	(3.32)	(1.53)	(1.71)	(1.92)
Profit After Tax	Rs.'bn	18.70	19.62	24.15	27.16	30.42

Key Statistics		CY21	CY22E	CY23E	CY24E	CY25E
EPS	Rs.	16.83	17.65	21.73	24.44	27.37
DPS	Rs.	7.00	7.50	9.00	10.00	11.50
D.Y	%	12.66	13.57	16.28	18.09	20.80
NIM	%	3.21	3.75	3.96	3.92	3.87
ROE	%	20.78	19.39	20.80	20.41	20.06
CASA	%	76.52	76.52	76.52	76.52	76.52
BVPS	Rs.	80.99	91.07	104.49	119.71	136.46
PE	x	3.29	3.13	2.54	2.26	2.02
PB	x	0.68	0.61	0.53	0.46	0.41

MEBL – Meezan Bank Limited

ABBASI AND COMPANY (Pvt) Ltd.

We have a BUY stance on the scrip with a Justified PB based Dec-23 target price of Rs 140 which provides an upside potential of 40%. Furthermore, it also offers a dividend yield of 8% which makes the total return of 48%.

Strong Growth in Deposits: The deposit base of MEBL has shown a robust growth of 23.3% YoY to Rs1.66trn in 9MCY22 as compared to Rs1.34trn in 9MCY21. The robust growth in deposits has been made possible by the network of more than 900 branches which have grown at a 5-year CAGR of 9.58%. Going forward, we expect the deposit base to grow at a 5-year CAGR of 15% to Rs3.37trn by CY27.

Low Proportion of Government Deposits: MEBL has almost the lowest proportion of government deposits in its deposit base. By the end of CY21, the bank had only 0.47.% of government deposits which makes it one of the least affected banks in case of the formation of treasury single account (TSA).

High Advances to Deposit Ratio: The ADR of MEBL stood at around 51% in 9MCY21 as compared to the industry average of 49.7% due to which it stands out amongst its peers. High ADR would enable the bank to expand its NIM by earning high yields on corporate loans.

Valuation: MEBL is currently trading at CY23E PE of 4.35x. Furthermore, the scrip is trading at a CY22E P/B of 1.3x which offers a discount of 38% relative to its historical 2-year average of 2.08x.

Key Risks: Low quality ADRs, higher than expected NPLs, implementation of IFRS 9.

Symbol	MEBL
TP (Dec-23)	140.00
CY22 Closing Price	99.54
Upside (%)	40
Free Float ('mn)	447
Market Cap. (Rs.'mn)	178,944

BUY | HOLD | SELL

52-Week Range

99.54

98.20 — 148.07

Income Statement		CY21	CY22E	CY23E	CY24E	CY25E
Net Interest Income	Rs.'bn	68.92	102.77	108.39	108.17	112.77
Total Interest Expense	Rs.'bn	14.89	21.87	29.75	38.71	45.70
Operating Expenses	Rs.'bn	34.36	49.11	60.07	63.87	68.91
(Provisions) / Reversals	Rs.'bn	(0.99)	(2.37)	(1.54)	(1.29)	(0.77)
Profit After Tax	Rs.'bn	28.36	36.09	40.95	43.74	47.54

Key Statistics		CY21	CY22E	CY23E	CY24E	CY25E
EPS	Rs.	15.84	20.17	22.88	24.44	26.56
DPS	Rs.	6.00	7.50	8.50	9.50	10.00
D.Y	%	6.03	7.53	8.54	9.54	10.05
NIM	%	3.78	5.12	4.59	3.91	3.52
ROE	%	32.76	32.73	29.93	26.59	24.35
CASA	%	81.66	79.90	79.90	79.90	79.90
BVPS	Rs.	48.37	61.61	76.46	91.93	109.11
PE	x	6.28	4.94	4.35	4.07	3.75
PB	x	2.06	1.62	1.30	1.08	0.91

UBL – United Bank Limited

We have a BUY stance on the scrip with a Justified PB based Dec-23 target price of Rs 135 which provides an upside potential of 34%. Furthermore, it also offers an attractive dividend yield of 18% which makes the total return of 52%.

Strong Growth in Deposits Likely to Continue: The deposit base of UBL has shown an enormous growth rate of 19.98% YoY to Rs2.17trn in 9MCY22 as compared to Rs1.81trn in 9MCY21. The growth in deposits has been made possible by the network of more than 1300 branches in the country. Going forward, we expect the deposit base to grow at a 5-year CAGR of 7% to Rs2.59trn by CY27.

Low Proportion of Government Deposits: UBL has a very low proportion of government deposits in its deposit base. By the end of CY21, the bank had only 7.78% of government deposits which makes it one of the least affected banks in case of the formation of a treasury single account (TSA) in the future.

High Capital Adequacy Ratio: UBL has an above-average capital adequacy ratio than its peers, which stands at 22% in 9MCY22 as compared to the industry average of 16% due to which it stands out amongst its peers. The bank is more likely to be able to withstand a financial downturn or other unforeseen losses.

Valuation: UBL is currently trading at CY23E PE of 3.43x. Furthermore, the scrip is trading at a CY23E P/B of 0.54x which offers a discount of 13% relative to its historical 2-year average of 0.62x.

Key Risks: Low ADR ratio, higher than expected NPLs, implementation of IFRS 9.

Symbol	UBL
TP (Dec-23)	135.00
CY22 Closing Price	100.75
Upside (%)	34
Free Float ('mn)	489
Market Cap. (Rs.'mn)	127,314

BUY HOLD SELL

52-Week Range

100.75

96.51 **150.90**

Income Statement		CY21	CY22E	CY23E	CY24E	CY25E
Net Interest Income	Rs.'bn	71.759	97.123	99.357	92.624	94.41
Total Interest Expense	Rs.'bn	23.379	29.593	31.489	33.83	36.375
Operating Expenses	Rs.'bn	42.75	50.45	52.09	50.34	52.07
(Provisions) / Reversals	Rs.'bn	0.96	(7.77)	(11.93)	(4.44)	(4.59)
Profit After Tax	Rs.'bn	30.88	24.85	35.95	38.64	39.97

Key Statistics		CY21	CY22E	CY23E	CY24E	CY25E
EPS	Rs.	25.23	20.30	29.37	31.57	32.65
DPS	Rs.	18.00	17.00	18.00	20.00	20.00
D.Y	%	17.87	16.87	17.87	19.85	19.85
NIM	%	2.73	3.14	2.95	2.60	2.60
ROE	%	15.09	11.71	15.70	15.69	15.08
CASA	%	78.95	78.95	78.95	78.95	78.95
BVPS	Rs.	167.17	173.31	187.05	201.15	216.51
PE	x	3.99	4.96	3.43	3.19	3.09
PB	x	0.60	0.58	0.54	0.50	0.47

MCB – MCB Bank Limited

We have a BUY stance on the scrip with a Justified PB-based Dec-23 target price of Rs 160 which provides an upside potential of 29%. Furthermore, it also offers an attractive dividend yield of 20% which makes the total return of 49%.

Strong Growth in Deposits Likely to Continue: The deposit base of MCB has grown by 9.15% YoY to Rs1.59trn in 9MCY22 as compared to Rs1.46trn in 9MCY21. The growth in deposits has been made possible by the network of more than 1,400 branches which have grown at a 5-year CAGR of 2.9%. Going forward, we expect the deposit base to grow at a 5-year CAGR of 9.5% to Rs2.43trn by CY27.

Low Proportion of Government Deposits: MCB has almost the lowest proportion of government deposits in its deposit base. By the end of CY21, the bank had only 5.3% of government deposits which makes it one of the least affected banks in case of the formation of a treasury single account (TSA).

High CASA to Reduce Interest Expense: CASA to deposit ratio of MCB is 89.5% in 9MCY22, the highest in the industry; the low-cost deposit base would help the bank to enhance its return on equity.

Valuation: MCB is currently trading at CY23E PE of 3.66x. Furthermore, the scrip is trading at a CY23E P/B of 0.71x which offers a discount of 6% relative to its historical 2-year average of 0.76x.

Key Risks: Low quality ADRs, higher than expected NPLs, implementation of IFRS 9.

Symbol	MCB
TP (Dec-23)	150.00
CY22 Closing Price	116.16
Upside (%)	29
Free Float ('mn)	415
Market Cap. (Rs.'mn)	138,296

BUY | HOLD | SELL

52-Week Range

116.16

108.95 166.20

Income Statement		CY21	CY22E	CY23E	CY24E	CY25E
Net Interest Income	Rs.'bn	63.99	83.22	94.37	93.69	99.47
Total Interest Expense	Rs.'bn	20.07	26.95	21.08	22.86	24.83
Operating Expenses	Rs.'bn	35.38	40.76	42.72	43.12	45.99
(Provisions) / Reversals	Rs.'bn	4.82	1.77	(4.77)	(5.22)	(5.71)
Profit After Tax	Rs.'bn	30.81	23.69	37.61	37.73	40.16

Key Statistics		CY21	CY22E	CY23E	CY24E	CY25E
EPS	Rs.	26.00	19.99	31.74	31.84	33.89
DPS	Rs.	19.00	15.00	23.00	23.00	25.00
D.Y	%	16.36	12.91	19.80	19.80	21.52
NIM	%	3.28	3.84	3.90	3.56	3.46
ROE	%	17.67	13.01	19.38	18.28	18.35
CASA	%	89.33	87.59	87.59	87.59	87.59
BVPS	Rs.	147.2	153.6	163.8	174.1	184.7
PE	x	4.47	5.81	3.66	3.65	3.43
PB	x	0.79	0.76	0.71	0.67	0.63

FABL – Faysal Bank Limited

We have a BUY stance on the scrip with a Justified PB-based Dec-23 target price of Rs 32 which provides an upside potential of 24%. Furthermore, it also offers an attractive dividend yield of 18% which makes the total return of 42%.

Strong Growth in Deposits Likely to Continue: The deposit base of FABL has shown an impressive growth of 18% YoY to Rs725bn in 9MCY22 as compared to Rs614bn in 9MCY21. The growth in deposits has been made possible by the network of nearly 700 branches currently in the country. Going forward, we expect the deposit base to grow at a 5-year CAGR of 19% to Rs1.71trn by CY27.

Low Proportion of Government Deposits: FABL has almost the lowest proportion of government deposits in its deposit base. By the end of CY21, the bank had only 2.22% of government deposits which makes it one of the least affected banks in case of the formation of a treasury single account (TSA).

Transition to Islamic Bank: The robust growth has swelled Islamic banking to 20% of the banking sector as of September 2022. During the last quarter of CY22, FABL fully transformed itself from a conventional bank to 2nd largest Islamic bank in the country, and with the continuous growth into Islamic banking, we expect the bank to keep up its growth momentum.

Valuation: FABL is currently trading at CY23E PE of 3.21x. Furthermore, the scrip is trading at a CY23E P/B of 0.54x which offers a discount of 22% relative to its historical 3-year average of 0.69x.

Key Risks: Low quality ADRs, higher than expected NPLs, implementation of IFRS 9.

Symbol	FABL
TP (Dec-23)	32.00
CY22 Closing Price	25.83
Upside (%)	24
Free Float ('mn)	379
Market Cap. (Rs.'mn)	40,143

BUY HOLD SELL

52-Week Range

25.83

▲

19.95 **31.94**

Income Statement		CY21	CY22E	CY23E	CY24E	CY25E
Net Interest Income	Rs.'bn	25.83	35.78	46.94	49.00	53.49
Total Interest Expense	Rs.'bn	8.51	8.84	13.06	15.82	19.19
Operating Expenses	Rs.'bn	20.61	25.27	33.98	36.70	41.16
(Provisions) / Reversals	Rs.'bn	(0.05)	0.98	(3.25)	(3.87)	(4.61)
Profit After Tax	Rs.'bn	8.15	10.15	12.20	12.98	14.40

Key Statistics		CY21	CY22E	CY23E	CY24E	CY25E
EPS	Rs.	5.37	6.68	8.04	8.55	9.49
DPS	Rs.	1.50	6.00	4.75	5.00	5.50
D.Y	%	5.81	23.23	18.39	19.36	21.29
NIM	%	3.04	4.19	4.70	4.16	3.85
ROE	%	12.39	15.22	16.83	16.46	16.73
CASA	%	67.55	58.28	67.81	62.48	67.81
BVPS	Rs.	43.4	43.9	47.8	52.0	56.7
PE	x	4.81	3.86	3.21	3.02	2.72
PB	x	0.60	0.59	0.54	0.50	0.46

Source: Company Financials, ACPL Research, SBP

Fertilizer

The agricultural sector contributes significantly to both employment and earnings from foreign exchange. Additionally, it serves as a source of industrial raw materials, therefore expansion in this industry certainly has numerous connections to the whole economy.

The recent unprecedented flash floods brought on by historically the heaviest rains completely washed away standing crops on more than four million acres in various parts of the country.

Prime Minister Shehbaz Sharif launched a significant package of incentives and projects totaling up to Rs 1800 billion for the current fiscal year, which is four times more than the farming community received the year prior. If the package is carried out by everyone involved in the process determinedly, and if the facilities offered are utilized by the farmers, especially in the flood-affected areas, then it is easy to say that this package will prove to be the best in supporting the sector. Our recommended scrips in the sector include: EFERT, FFC, and FATIMA

Fertilizer

EFERT

Dec-23 TP: 100

Upside: 30%

Div. Yield: 19%

FFC

Dec-23 TP: 130

Upside: 32%

Div. Yield: 17%

FATIMA

Dec-23 TP: 42

Upside: 25%

Div. Yield: 11%

EFERT – Engro Fertilizers Limited

We have a BUY stance on the scrip with a DCF-based Dec-23 target price of Rs 100 which provides an upside potential of 30%. Furthermore, it also provides a dividend yield of 19% which makes a total return of 49%.

Attractive Dividend Yield at Discounted Prices: One of the simplest ways for companies to communicate financial well-being and shareholder value is to say, "the dividend check is in the mail." EFERT announced an annual dividend of Rs16.5 (104.57% payout ratio) in CY21 which makes a dividend yield of around 23.45%. Hence, during a period of uncertainty and high volatility in the stock market, EFERT is one of the best options to secure a regular stream of income in the form of a high expected dividend yield of around 18% in CY23.

Concessionary Gas: On suits filed for GIDC and the end of the concessionary gas period, the stay orders are in place. During the period, on the matter of GIDC on concessionary gas, the Government of Pakistan has filed a response setting out their stance on the matter. The Company has drafted a rejoinder to the stance submitted by the Government and is in the process of finalizing and submitting the same before the Sindh High Court.

Valuation: EFERT is currently trading at CY23E PE of 5.04x. Furthermore, the scrip is trading at a CY22E P/B of 2.15x.

Key Risks: Decline in international urea prices, increase in gas prices, more than expected depreciation of PKR.

Symbol	EFERT
TP (Dec-23)	100
CY22 Closing Price	76.89
Upside (%)	30
Free Float ('mn)	601
Market Cap. (Rs.'mn)	102,671

BUY | HOLD | SELL

52-Week Range

76.89

74.60 — 102.40

Income Statement		CY21A	CY22E	CY23E	CY24E	CY25E
Nets Sales	Rs.'bn	132.36	153.71	146.61	144.87	141.23
Gross Profit	Rs.'bn	44.07	48.66	44.91	44.52	42.93
SG&A Expenses	Rs.'bn	10.43	10.97	10.47	10.34	10.08
Finance Cost	Rs.'bn	1.60	2.72	2.16	1.46	1.24
Profit After Tax	Rs.'bn	21.09	15.06	20.39	20.69	19.98

Key Statistics		CY21A	CY22E	CY23E	CY24E	CY25E
EPS	Rs.	15.80	11.28	15.27	15.50	14.96
DPS	Rs.	16.50	11.00	15.00	15.00	14.50
D.Y	%	21.46	14.31	19.51	19.51	18.86
GM	%	33.30	31.65	30.63	30.73	30.39
E.Tax	%	29.43	54.40	33.00	33.00	33.00
NM	%	15.94	9.80	13.91	14.28	14.15
DE	x	0.45	0.37	0.22	0.15	0.18
PE	x	4.87	6.82	5.04	4.96	5.14
PB	x	2.18	2.16	2.15	2.12	2.09

FFC – Fauji Fertilizer Company Limited

We have a BUY stance on the scrip with a DCF-based Dec-23 target price of Rs 130 which provides an upside potential of 32%. Furthermore, it also provides a dividend yield of 17% which makes a total return of 49%.

Standing Tall Despite Distressed Economy: Fauji Fertilizer Company is a mature organization. It has stable selling volumes of Urea owing to a loyal customer base and stagnant Urea demand in the country. As it can be seen historically, its selling volumes of Urea are approximately around 2.5 million KT's every year, depicting no fluctuations in relation to the economic cycle.

Diversified Investment Portfolio: FFC holds a diversified investment portfolio. It has investments in the fertilizer, food, energy, cement, banking, and chemical sectors. Other than this, FFC also holds positions in financial instruments i.e., Pakistan Investment Bonds and mutual funds. It has a total investment of around Rs.119 billion, out of which Rs.48 billion is long-term and Rs.71 billion is short-term. Income from these investments is a significant part of the company's bottom line. In CY21, the other income constituted 26% of the profit before taxation.

Valuation: FFC is currently trading at CY23E PE of 4.91x. Furthermore, the scrip is trading at a CY23E P/B of 2.29x which offers a discount of 15% relative to its historical 3-year average of 2.69x.

Key Risks: Decline in international urea prices, increase in gas prices, more than expected depreciation of PKR.

Symbol	FFC
TP (Dec-23)	130.07
CY22 Closing Price	98.71
Upside (%)	32
Free Float ('mn)	700
Market Cap. (Rs.'mn)	127,974

BUY | HOLD | SELL

52-Week Range

98.71

97.90 — 128.89

Income Statement		CY21A	CY22E	CY23E	CY24E	CY25E
Nets Sales	Rs.'bn	108.65	105.75	130.15	136.44	143.87
Gross Profit	Rs.'bn	38.88	40.60	50.11	51.98	54.20
SG&A Expenses	Rs.'bn	8.41	9.24	11.38	11.93	12.58
Finance Cost	Rs.'bn	2.29	4.31	3.49	2.52	1.56
Profit After Tax	Rs.'bn	21.90	19.87	25.57	27.35	29.05

Key Statistics		CY21A	CY22E	CY23E	CY24E	CY25E
EPS	Rs.	17.21	15.62	20.10	21.50	22.84
DPS	Rs.	14.50	13.00	17.00	16.50	17.50
D.Y	%	14.69	13.17	17.22	16.72	17.73
GM	%	35.78	38.39	38.50	38.10	37.67
E.Tax	%	27.83	43.49	33.00	33.00	33.00
NM	%	20.15	18.79	19.65	20.05	20.20
DE	x	1.27	0.97	0.82	0.58	0.41
PE	x	5.74	6.32	4.91	4.59	4.32
PB	x	2.64	2.47	2.29	2.05	1.85

FATIMA – Fatima Fertilizer Company Limited

We have a BUY stance on the scrip with a DCF based Dec-23 target price of Rs 42 which provides an upside potential of 25%. Furthermore, it also provides a dividend yield of 11% which makes a total return of 36%.

Market Leader in CAN & NP: Urea and CAN can be substituted by each other and due to the said reason, the prices of CAN have a strong correlation with Urea prices. After acquiring Pakarab fertilizers, Fatima fertilizer is the sole domestic producer of the CAN in the entire industry and can play a very important role in setting the price. On the other side, DAP and NP can be used as substitutes for each other and their prices are also strongly correlated. Therefore, the increase in Urea or DAP prices will allow Fatima fertilizer to increase the prices of its products which would eventually improve the earnings of company.

Further Expansion Projects: The Board of Directors of Fatima Fertilizer Company Limited (Fatima) authorized a plan to further consolidate all the fertilizer business by merging its related company Pakarab Fertilizers Limited (PFL) into Fatima in a significant step aimed at expansion.

Valuation: FATIMA is currently trading at CY23E PE of 3.00x. Furthermore, the scrip is trading at a CY23E P/B of 0.57x which offers a discount of 20% relative to its historical 2-year average of 0.72x.

Key Risks: Decline in international UREA/DAP prices, increase in gas tariff, more than expected depreciation of PKR.

Symbol	FATIMA
TP (Dec-23)	42.00
CY22 Closing Price	33.60
Upside (%)	25
Free Float ('mn)	315
Market Cap. (Rs.'mn)	71,001

BUY HOLD SELL

52-Week Range

35.99

25.90 **37.00**

Income Statement		CY21A	CY22E	CY23E	CY24E	CY25E
Nets Sales	Rs.'bn	112.49	133.94	137.68	142.30	147.01
Gross Profit	Rs.'bn	43.08	57.02	56.19	57.18	57.84
SG&A Expenses	Rs.'bn	8.95	12.87	13.23	13.67	14.13
Finance Cost	Rs.'bn	2.01	2.51	2.70	3.05	3.80
Profit After Tax	Rs.'bn	18.69	13.93	23.49	23.51	23.03

Key Statistics		CY21A	CY22E	CY23E	CY24E	CY25E
EPS	Rs.	8.80	6.63	11.19	11.19	10.97
DPS	Rs.	3.50	2.50	4.50	4.50	4.50
D.Y	%	8.34	5.95	10.72	10.72	10.72
GM	%	38.30	42.57	40.81	40.18	39.34
E.Tax	%	34.45	61.92	33.00	33.00	33.00
NM	%	16.42	10.40	17.06	16.52	15.67
DE	x	0.13	0.14	0.15	0.18	0.22
PE	x	3.82	5.06	3.00	3.00	3.06
PB	x	0.70	0.65	0.57	0.51	0.47

Oil & Gas Exploration

Over the past half-century, the petroleum industry has played a significant role in national development by making large indigenous oil and gas discoveries. With looming energy crises and the ongoing growing demand for oil and gas in Pakistan, the exploration and production of oil & gas, or upstream has garnered considerable interest from investors (both local and foreign).

However, the stocks of these companies didn't perform as per the expectations in recent times owing to the liquidity crunch amid the circular debt crisis. Going forward, we expect the government's efforts to resolve the issue of circular debt will revive the investors' sentiments. Furthermore, dollar-denominated revenue and debt-free capital structure has made the valuations of the sector much more attractive. Our recommended scrips in the sector include: MARI

Oil & Gas Exploration

MARI

Dec-23 TP: 2,065

Upside: 33%

Div. Yield: 10%

MARI – Mari Petroleum Company Limited

We have a BUY stance on the scrip with a DCF based Dec-23 target price of Rs 2,065 which provides an upside potential of 33%. Furthermore, it also provides a dividend yield of 10% which makes a total return of 43%.

Impressive Financial Performance: The company achieved magnificent results in 1QFY23 as compared to the SPLY amid a surge in the wellhead price of Mari Gas Field in addition to the depreciation of PKR against USD. The company posted revenue of Rs31.83bn in 1QFY23 against Rs20.73bn in SPLY, recording a growth of 53.6% YoY despite low offtakes from the field. Furthermore, the exploration cost went down by 21% as no dry wells were encountered during the quarter. The profit after tax of MARI increased by 39.7% to Rs12.72bn (EPS: Rs95.31) as compared to the profit after tax of Rs9.10bn (EPS: Rs68.21) in the SPLY. Following the agreement between FFC, EFERT and FATIMA with MARI to supply gas from Habib Rahi Limestone (HRL) Reservoir in addition to the expected depreciation of PKR due to macroeconomic factors, going forward, we expect the revenue and earnings to continue their upward trajectory. Furthermore, the government has entered into a joint venture agreement with MARI for the exploration of gas and oil in the Machh and Dadhar regions.

Attractive Dividend Yield at Discounted Prices: MARI announced the annual dividend of Rs124 (50% payout ratio) in FY22 which makes a dividend yield of around 7.47%. Hence, during a period of uncertainty and high volatility in the stock market, MARI is one of the best options to secure a regular stream of income in the form of a high expected dividend yield of around 9.6% in FY23.

Valuation: MARI is currently trading at FY23E PE of 4.89x. Furthermore, the scrip is trading at a FY23E P/B of 1.26x which offers a discount of 32% relative to its historical 3-year average of 1.86x.

Key Risks: Appreciation of rupee, drop in crude oil prices, lower demand, high exploration cost.

Symbol	MARI
TP (Dec-23)	2,065
CY22 Closing Price	1546.96
Upside (%)	33
Free Float ('mn)	27
Market Cap. (Rs.'mn)	208,776

BUY HOLD SELL

52-Week Range

1546.96

1,509.99 — 1,815.00

Income Statement		FY21	FY22	FY23E	FY24E	FY25E
Net Sales	Rs.'bn	82.69	108.97	131.53	137.06	142.64
Gross Profit	Rs.'bn	73.02	95.13	117.52	122.46	127.45
SG&A Expenses	Rs.'bn	15.04	17.40	21.53	22.43	23.35
Finance Cost	Rs.'bn	1.31	0.98	2.24	1.31	1.96
Profit After Tax	Rs.'bn	31.44	33.06	42.23	45.50	46.96

Key Statistics		FY21	FY22	FY23E	FY24E	FY25E
EPS	Rs.	235.71	247.84	316.58	341.08	351.99
DPS	Rs.	141.00	124.00	158.00	171.00	176.00
D.Y	%	9.11	8.02	10.21	11.05	11.38
GM	%	88.30	87.30	89.35	89.35	89.35
E.Tax	%	28.42	36.56	34.20	33.00	33.00
NM	%	38.03	30.34	32.11	33.20	32.92
DE	x	-	0.01	0.00	0.00	0.00
PE	x	6.56	6.24	4.89	4.54	4.39
PB	x	1.79	1.58	1.26	1.00	0.82

Technology & Communication

Pakistan, which has about 60% of its 200 million population in the 15 to 29 age group, represents an enormous human and knowledge capital. It has more than 2,000 IT companies & call centers and the number is growing every year. The country has more than 300,000 English-speaking IT professionals with expertise in current and emerging IT products and technologies and 13 Software technology parks. More than 20,000 IT graduates and engineers are being produced each year in Pakistan in addition to a rising startup culture.

Due to the Covid-19 pandemic, the global economy has been affected adversely especially due to lockdown measures. However, being a less contact-intensive industry, the technology sector remained the least affected from the Covid-19. Our recommended scrips in the sector include: SYS

Technology & Communication

SYS

Dec-23 TP: 635

Upside: 31%

Div. Yield: 2%

SYS – Systems Limited

We have a BUY stance on the scrip with a DCF based Dec-23 target price of Rs 635 which provides an upside potential of 31%.

Strong Growth in Profitability Likely to Continue: The company has been able to grow its revenue and profit after taxation by 82% YoY and 108.5% respectively in 9MCY22 as compared to the SPLY - following a growth of 58.4% YoY and 51.4% YoY respectively in CY21 over CY20. Middle East region contributed most to the growth followed by North America region, and we expect this growth momentum to continue on the back of acquisitions of Ndc Tech and THC to offer core banking and digital financial solutions to the clients in addition to geographical diversification and workforce expansion. With the introduction of new product developed in collaboration with Sarmayacar and Sharooq Partners, E-Processing Systems will help company to penetrate the micro-retailer base of Pakistan.

Diversification to Remain a Key Positive: SYS has a diverse geographic presence with nearly 80% of revenue generated from exports to North America, Middle East and Europe. With the launch of operations in South Africa, Egypt, Singapore and Australia, the company has presence in five continents of the world - catering increased demand of IT services and reaping the benefits of diversified services portfolio.

Valuation: SYS is currently trading at CY23E PE of 17.43x. Furthermore, the scrip is trading at a CY23E P/B of 5.45x which offers a discount of 58% relative to its historical 3-year average of 12.99x.

Key Risks: Acquisitions not providing expected synergies, slowdown in global IT spending, PKR appreciation, High employee turnover.

Symbol	SYS
TP (Dec-23)	635
CY22 Closing Price	483.93
Upside (%)	31
Free Float ('mn)	167
Market Cap. (Rs.'mn)	139,875

BUY | HOLD | SELL

52-Week Range

483.93

281.00 — **816.00**

Income Statement		CY21	CY22	CY23E	CY24E	CY25E
Nets Sales	Rs.'bn	11.90	19.93	25.69	31.88	38.03
Gross Profit	Rs.'bn	3.99	6.43	8.20	10.07	11.87
SG&A Expenses	Rs.'bn	1.17	1.79	1.83	2.27	2.71
Finance Cost	Rs.'bn	0.08	0.18	0.19	0.21	0.23
Profit After Tax	Rs.'bn	3.32	6.43	7.73	9.51	11.22

Key Statistics		CY21	CY22	CY23E	CY24E	CY25E
EPS	Rs.	11.93	23.10	27.76	34.16	40.32
DPS	Rs.	5.00	7.00	8.25	10.25	12.00
D.Y	%	1.03	1.45	1.70	2.12	2.48
GM	%	33.53	32.25	31.92	31.57	31.21
E.Tax	%	0.95	5.17	1.81	1.83	1.84
NM	%	27.90	32.27	30.09	29.82	29.52
DE	x	27.10	14.34	11.36	9.28	7.83
PE	x	40.57	20.95	17.43	14.17	12.00
PB	x	12.86	7.54	5.45	4.05	3.12

Real Estate Investment Trust

A Real Estate Investment Trust (REIT) is a company that owns or finances income-producing real estate. A REIT combines a pool of money from individuals and institutions to buy real estate projects. The Unitholders of a REIT Scheme earn a share of the income produced through renting or selling the real estate property without actually having to bear the hassle of buying or managing the property on their own. Our recommended scrips in the sector include: DCR

Real Estate Investment Trust

DCR

Dec-23 TP: 15.9

Upside: 17%

Div. Yield: 13%

DCR – Dolmen City REIT

We have a BUY stance on the scrip with a DCF based Dec-23 target price of Rs 15.9 which provides an upside potential of 16.5%. Furthermore, it also provides a dividend yield of 13% which makes a total return of 29.5%.

High Dividend Yield to Provide Constant Stream of Income: REITs have to distribute at least 90% of its profits as dividends to the unitholders to avail tax-exempt status. DCR had announced an annual dividend of Rs1.50 (101.8% payout ratio) in FY22 which makes a dividend yield of around 11%. Hence, during a period of uncertainty and high volatility in the stock market, DCR is one of the best options to secure a regular stream of income in the form of a high expected dividend yield.

Consistent Level of Occupancy to Remain Intact: DCR has been enjoying a consistent level of occupancy since its inception in 2015. In FY22, the occupancy level of the malls was above 95% which depicts the affection of tenants towards its malls. The occupants include a mix of local and multinational brands which provide a strong customer experience. Furthermore, events and prominent activities help to maintain the goodwill of the tenants and the company. Going forward, we expect the occupancy level to remain near 100% as a number of potential tenancies are in the pipeline according to company sources.

Valuation: DCR is currently trading at FY23E PE of 7.89x. Furthermore, the scrip is trading at a FY23E P/B of 0.46x which offers a discount of 14% relative to its historical 3-year average of 0.53x.

Key Risks: Reduction in the occupancy level, high turnover of the tenants, the low purchasing power of the customers, any legal issue damaging the goodwill of the company

Symbol	DCR
TP (Dec-23)	15.90
CY22 Closing Price	13.64
Upside (%)	16.6
Free Float ('mn)	556
Market Cap. (Rs.'mn)	30,287

BUY | HOLD | SELL

52-Week Range

13.64

12.25 — 15.48

Income Statement		FY21	FY22E	FY23E	FY24E	FY25E
Nets Sales	Rs.'bn	3.09	3.80	4.32	4.62	4.95
Operating Profit	Rs.'bn	2.66	3.28	3.79	4.05	4.34
SG&A Expenses	Rs.'bn	0.42	0.52	0.53	0.57	0.61
Other Income	Rs.'bn	0.13	0.13	0.21	0.22	0.23
Profit After Tax	Rs.'bn	8.61	9.76	6.16	8.81	9.10

Key Statistics		FY21	FY22E	FY23E	FY24E	FY25E
EPU	Rs.	3.87	4.39	2.77	3.96	4.09
DPS	Rs.	1.24	1.50	1.75	2.00	2.00
D.Y	%	9.09	11.00	12.83	14.66	14.66
OM	%	86.34	86.39	87.65	87.65	87.65
ROE	%	14.99	15.29	9.32	12.50	12.11
Distributable EPU	Rs.	1.21	1.47	1.73	1.85	1.98
Un-Distributable EPU	Rs.	2.66	2.92	1.04	2.11	2.11
PE	x	11.28	9.26	7.89	7.37	6.90
PB	x	0.53	0.48	0.46	0.43	0.40

Source: Company Financials, ACPL Research

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